

# CBO PAPERS

THE ECONOMIC AND  
BUDGET OUTLOOK:  
AN UPDATE

July 1, 1999

19990720 008



CONGRESSIONAL BUDGET OFFICE

# **CBO**

---

# **PAPER**

---

**THE ECONOMIC AND  
BUDGET OUTLOOK:  
AN UPDATE**

**July 1, 1999**

**DISTRIBUTION STATEMENT A**

Approved for Public Release  
Distribution Unlimited



**CONGRESSIONAL BUDGET OFFICE  
SECOND AND D STREETS, S.W.  
WASHINGTON, D.C. 20515**

---

## **NOTES**

The figures in this report use shaded vertical bars to indicate periods of recession. Those bars extend from the peak to the trough of the recession.

Unemployment rates throughout the report are calculated on the basis of the civilian labor force.

Numbers in the text and tables may not add up to totals because of rounding.

---

---

## Preface

This volume is one in a series of reports on the state of the economy and the budget that the Congressional Budget Office (CBO) issues each year. It satisfies the requirement of section 202(e) of the Congressional Budget Act of 1974 for CBO to submit periodic reports to the Committees on the Budget with respect to fiscal policy and to provide five-year baseline projections of the federal budget. The budget resolution for fiscal year 2000 required CBO to publish this report by July 1, 1999. In accordance with CBO's mandate to provide objective and impartial analysis, the report contains no recommendations.

In view of the accelerated schedule for this volume, additional supporting materials (listed in the table of contents) will be made available on CBO's World Wide Web site ([www.cbo.gov](http://www.cbo.gov)) during the month of July.

The analysis of the economic outlook was prepared by the Macroeconomic Analysis Division under the direction of Robert Dennis, Kim J. Kowalewski, and John F. Peterson. David Brauer was the lead author for the economic section. The baseline outlay projections were prepared by the staff of the Budget Analysis Division under the supervision of Paul N. Van de Water, Robert Sunshine, Priscilla Aycock, Thomas Bradley, Paul Cullinan, Peter Fontaine, James Horney, and Michael Miller. The revenue estimates were prepared by the staff of the Tax Analysis Division under the supervision of Thomas Woodward and Richard Kasten. Jeffrey Holland wrote the introduction and the section on the budget outlook.

An early version of the economic forecast underlying this report was discussed at a meeting of CBO's Panel of Economic Advisers on June 2, 1999. Members of the panel are Alan J. Auerbach, Martin N. Baily, Jagdish Bhagwati, Michael Boskin, Barry P. Bosworth, John Cogan, Robert Dederick, William C. Dudley, Martin Feldstein, Robert J. Gordon, David Hale, Robert E. Hall, N. Gregory Mankiw, Allan Meltzer, William Niskanen, William D. Nordhaus, June E. O'Neill, Rudolph Penner, James Poterba, Robert Reischauer, Joel Slemrod, John Taylor, and Martin B. Zimmerman. Rudy Boschwitz, John Makin, Mark McClellan, William McGuire, and Joan Trauner attended as guests. Although those outside advisers provided considerable assistance, they are not responsible for the contents of this report.

Sherry Snyder and Christian Spoor edited the report, and Leah Mazade proofread it. The authors owe thanks to Marion Curry and Linda Lewis Harris, who assisted in preparing the many drafts. Kathryn Quattrone prepared the report for final publication, and Laurie Brown prepared the electronic versions for CBO's Web site.

Dan L. Crippen  
Director

July 1, 1999

---

# Contents

THE ECONOMIC OUTLOOK	2
The Forecast for 1999 and 2000	2
The Outlook After 2000	3
Taxable Income	4
THE BUDGET OUTLOOK	5
Changes in the Projections Since April	5
Revenue and Spending Projections	8
CONCLUSION	9

The following supporting documents will be posted on CBO's World Wide Web site ([www.cbo.gov](http://www.cbo.gov)) during July:

*Extended Discussion of CBO's July 1999 Economic Outlook*  
(Now available)

*Evaluating CBO's Record of Economic Forecasts*

*The Federal Sector of the National Income and Product Accounts*

*The Budget Adjusted for Effects of the Business Cycle*

*The Long-Term Budget Outlook: An Update*

**TABLES**

1.	The CBO Forecast for 1999 and 2000	10
2.	Comparison of the CBO Economic Projections for Calendar Years 1999-2009	11
3.	The CBO Economic Projections for Fiscal Years 1999-2009	12
4.	Key Assumptions for the CBO Projection of Potential Output	13
5.	The Budget Outlook Under Current Policies	14
6.	Changes in Baseline Surpluses Since April 1999	15
7.	CBO Baseline Budget Projections, Assuming Compliance with the Discretionary Spending Caps	16
8.	CBO Baseline Projections of Discretionary Outlays, Assuming Compliance with the Spending Caps	17
9.	CBO Baseline Projections of Mandatory Spending	18
10	CBO Baseline Projections of Interest Costs and Federal Debt	19

**FIGURES**

1.	GDP and Potential GDP	3
2.	Wage and Salary Disbursements	4
3.	Corporate Book Profits	4

**BOX**

1.	Will There Be an On-Budget Surplus in 2000?	6
----	---	---

---

# The Economic and Budget Outlook: An Update

The Congressional Budget Office (CBO) estimates that the total budget surplus will jump from \$69 billion in fiscal year 1998 to \$120 billion in 1999 and \$161 billion in 2000. Those projections assume that current laws affecting revenues and entitlement programs do not change and that the Congress complies with the statutory caps on discretionary outlays. When the off-budget spending and revenues of Social Security and the Postal Service are excluded, the remaining on-budget transactions are projected to show a surplus of \$14 billion in 2000. By either measure of the surplus, though, the beneficial effects on the budget of the prolonged economic expansion that began in 1991, combined with slower growth in entitlement spending and reduced levels of debt held by the public, lead CBO to project a sustained period of rising surpluses.

Growth in real (inflation-adjusted) gross domestic product (GDP) has averaged around 4 percent annually over the past three years and is expected to maintain that rate in 1999. Even though such rapid growth has pushed the unemployment rate down to 4.2 percent, it has not sparked inflation—the consumer price index (CPI) rose by only 1.6 percent in calendar year 1998 and is anticipated to grow by about 2.2 percent this year.

Next year, CBO expects growth in output (GDP) to slow and inflation to rise. One reason is that continued rapid growth this year and expectations of higher inflation are likely to cause the Federal Reserve

to raise interest rates modestly over the next several months.

Looking beyond 2000, CBO projects that real growth will average 2.4 percent a year through 2009. That rate marks a significant drop from the 4 percent average annual growth of the past three years, but it still represents a healthy increase in the economy that will keep the budget in good shape.

CBO now projects larger budget surpluses than it estimated in April, when it last assessed the budget outlook.<sup>1</sup> The cumulative total budget surplus over the 1999-2009 period is projected to be more than \$300 billion higher and the on-budget surplus more than \$180 billion higher. Although the increase in the total surplus may sound large, it equals just 1.2 percent of the revenues projected to flow into government coffers during that period.

The more optimistic projections of the surplus result from changes in economic and other factors that will increase revenues and reduce spending. In particular, slightly more optimistic projections of GDP and inflation (among other economic variables) have led CBO to increase its projection of the cumulative surplus by \$275 billion between 1999 and 2009. The

---

1. See the baseline projections published in Appendix A of *An Analysis of the President's Budgetary Proposals for Fiscal Year 2000* (April 1999). The economic assumptions underlying those projections were prepared in December and published in January in Chapter 1 of *The Economic and Budget Outlook: Fiscal Years 2000-2009*.

only piece of legislation enacted since April with a notable impact on the budget—the 1999 Emergency Supplemental Appropriations Act—lowers projected surpluses by a total of \$40 billion over the next 11 years. Overall, revisions to CBO's estimates raise its projections of the total budget surplus by \$10 billion in 1999 and an average of about \$30 billion a year thereafter. Under current laws and policies (and providing that the economy performs as CBO assumes), the surplus is projected to climb to \$413 billion in 2009. Cumulative on-budget surpluses are projected to total nearly \$1 trillion between 1999 and 2009. During that same period, cumulative off-budget surpluses will total slightly more than \$2 trillion.

## The Economic Outlook

CBO now forecasts significantly stronger economic growth in calendar years 1999 and 2000 than it did in January, when it published its previous economic outlook. The new forecast assumes that growth will continue at about the current pace through the rest of this year (see Table 1 on page 10).<sup>2</sup> Inflation, as measured by either the CPI or the GDP price index, is projected to increase modestly in 1999. However, continued strong growth this year, combined with expectations of higher inflation, will most likely prompt the Federal Reserve to increase the federal funds rate (the overnight interest rate that banks charge one another). Such an increase will help slow the economy next year and cap the inflation rate.

### The Forecast for 1999 and 2000

Real GDP grew at an annualized rate of 4.3 percent in the first quarter of 1999 and shows few signs of slowing. Strong growth is projected to continue in the near term for a number of reasons. First, although CBO expects the growth of consumer spending to slow from its recent breakneck pace, strong incomes and the lingering effects of the increase in wealth from rising stock prices will keep real growth of consumption robust for the rest of 1999, at roughly 3.5 percent. Sec-

ond, businesses' investment spending will probably continue at a rapid pace as the cost of capital remains fairly low and companies substitute productivity-enhancing capital equipment for increasingly scarce labor. Third, concerns about the Year 2000 (Y2K) computer problem may also spur growth in 1999 as businesses stockpile inventories in anticipation of possible disruptions in their supply. In the other direction, residential construction is likely to slow in 1999 in response to higher mortgage rates this spring and perhaps to shortages of labor and materials for construction.

Long-term interest rates have risen sharply in recent weeks, and prices in the futures market for federal funds suggest that the Federal Reserve will tighten its monetary policy in the next several months. Last fall, concern that dislocations in financial markets would stall the U.S. economy and threaten global recession prompted the Federal Reserve to reduce the target federal funds rate by 75 basis points (0.75 percentage points). The easing of the Asian crisis and of financial-market problems has mostly removed those concerns. Following the May 18 meeting of the Federal Open Market Committee, the Federal Reserve announced that it was leaning toward monetary tightening, citing "ongoing strength in demand" and "the potential for a buildup of inflationary imbalances." CBO's forecast assumes that the federal funds rate will be raised by a total of 50 basis points in 1999. That assumption is reflected in the increase in CBO's forecast for interest rates on three-month Treasury bills (see Tables 2 and 3).<sup>3</sup>

Higher interest rates will slow the economy in 2000 through several channels. CBO anticipates a pronounced slowdown in fixed investment, especially in residential construction. At the same time, with interest rates rising and greater growth in compensation putting pressure on profits, stock prices are unlikely to continue increasing at the rate of the past several years. Consequently, the boost to consumer spending from higher stock prices should gradually diminish. Higher interest rates will also help keep the dollar strong; thus, the trade deficit will most likely remain a drag on U.S. output in 2000. In addition,

2. An expanded version of the economic outlook is available on CBO's World Wide Web site ([www.cbo.gov](http://www.cbo.gov)).

3. CBO's forecast and the discussion above were produced before the June 29-30 meeting of the Federal Open Market Committee.

any excess inventory buildup related to Y2K fears will need to be worked off. For all of those reasons, CBO anticipates that growth of real GDP will slow from 4 percent in 1999 to 2.4 percent next year.

Inflation is forecast to rise modestly in both 1999 and 2000, in part because of higher energy prices. In addition, prices of imports other than oil, which have declined during the past two years, and prices for medical care, which have helped keep inflation down in recent years, may reverse course. And with labor markets still exceptionally tight, growth in compensation is likely to speed up.

## The Outlook After 2000

CBO does not forecast the ups and downs of the economy more than two years ahead. Its projections beyond that period simply extend historical patterns in the factors that underlie the trend growth of real GDP—factors such as the growth of the labor force, the growth of productivity, and the rate of national saving (see Table 4). Rapid growth in the past three years has driven real GDP above CBO's estimate of potential GDP (the highest level of real GDP that could persist for a substantial period without raising the rate of inflation). Therefore, CBO assumes that real GDP will grow more slowly than potential GDP after 2000 to close the gap between the two and reduce inflationary pressures (see Figure 1).

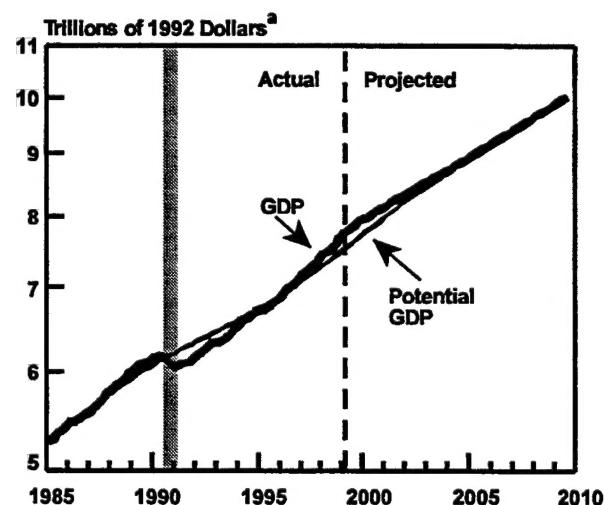
The current projection for growth of potential GDP—about 2.7 percent a year through 2009—is roughly 0.2 percentage points higher than CBO estimated in January. Half of that difference results from faster projected growth in the capital stock (4.1 percent, up from 3.8 percent last winter) caused by a higher projected rate of business investment that partly reflects larger budget surpluses.

The other half stems from two additional factors. First, CBO has revised its estimate of the technical adjustment that it incorporates into its projections to account for methodological changes to various price indexes. That adjustment reflects the effect on inflation and growth of real GDP from changes in the methods used to calculate the CPI and the price indexes based on the national income and product ac-

counts. Such changes reduce the measured rate of inflation without affecting nominal GDP, thus raising the growth of real GDP. CBO has increased its estimate of the technical adjustment by less than 0.1 percentage point a year, on average, for the 1999-2009 period.

Second, CBO has raised its projection of the growth of total factor productivity slightly to reflect the possibility that part of the recent boom in such growth may be permanent. (The growth of total factor productivity is the growth of output beyond that accounted for by the growth of labor and capital.) Some analysts have argued that the spread of free-market principles around the world, the increase in international trade, the rapid pace of investment in computers and information technology, and the apparent increase in the ability and motivation of managers to innovate will foster stronger productivity growth for years to come. Although those arguments rely on anecdotal evidence, there are few corresponding arguments that would imply significantly slower productivity growth. Thus, CBO has assumed a small increase in produc-

**Figure 1.**  
**GDP and Potential GDP**



SOURCES: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

NOTE: Values are plotted using a logarithmic scale.

a. Chain weighted.

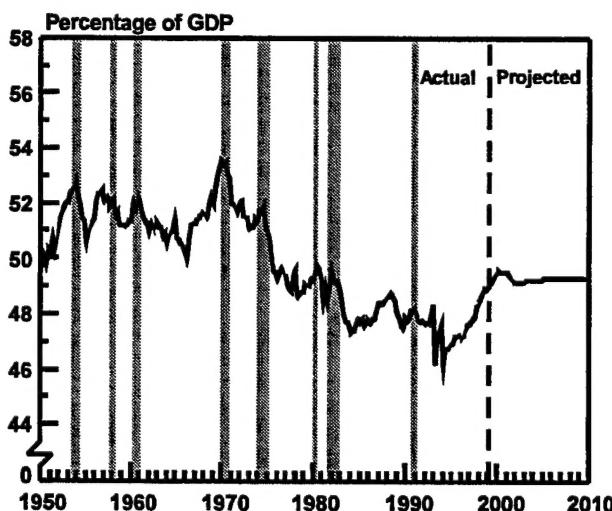
tivity growth above and beyond the effects of measurement changes and faster growth in the capital stock.

## Taxable Income

Projections of federal revenues are closely linked to projections of national income. However, different components of income are taxed at different rates, and some are not taxed at all. Thus, the distribution of national income among its various components is one of the most important parts of CBO's economic projections. Wage and salary disbursements and corporate profits are of special interest because they are taxed at the highest effective rates. Together, those two sources of income are expected to decline as a share of GDP by about 0.8 percentage points between 1999 and 2009 (see Table 2).

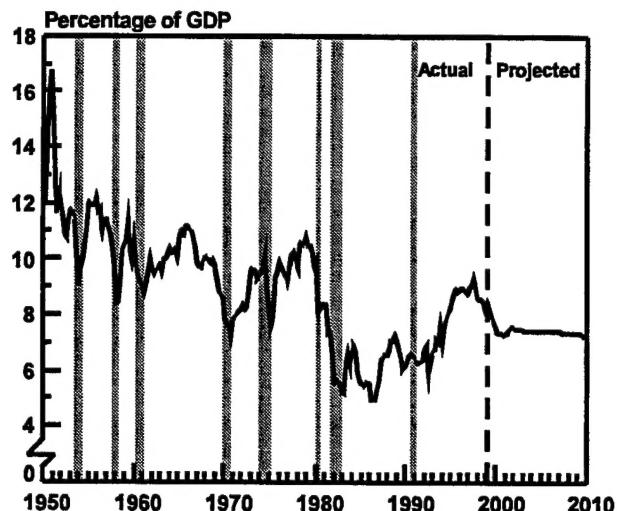
In response to tight labor markets, wage and salary disbursements are forecast to rise slightly as a percentage of GDP—reaching 49.5 percent in 2000. They are then projected to fall slightly—to an average of about 49.3 percent from 2001 through 2009—as gains in compensation relative to productivity diminish (see Figure 2).

**Figure 2.**  
**Wage and Salary Disbursements**



SOURCES: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

**Figure 3.**  
**Corporate Book Profits**



SOURCES: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

CBO projects that corporate profits (measured as book profits) will decline as a share of GDP as the economy slows, falling from 8.1 percent in 1999 to 7.3 percent in 2000 and then averaging 7.3 percent through 2009 (see Figure 3). Profits' share of GDP rose dramatically between 1992 and 1997. Although it eased back in 1998, it is still high compared with the average of the past 20 years. The recent increase stemmed from a sharp reduction in interest expenses and the initially slow response of compensation growth to the pickup in productivity growth. Compensation started to catch up with productivity gains during 1998, weakening the profit share. That trend is likely to continue to put downward pressure on profits through 2000.

An increase in depreciation charges will also reduce book profits during the projection period. Corporations can deduct depreciation of plant and equipment from earnings in calculating their tax liability. The rapid rise in investment in recent years and the high level of investment throughout the projection period increase depreciation charges relative to earnings. Therefore, the profits on which corporate taxes are based tend to fall as a share of GDP.

## The Budget Outlook

If current laws and policies remain unchanged and the economy performs as CBO assumes, the excess of total federal revenues over total federal outlays will grow from \$120 billion in 1999 to \$413 billion in 2009, CBO estimates (see Table 5). If those surpluses are realized, past borrowing from the public will be substantially repaid, and debt held by the public will fall from \$3,720 billion at the end of 1998 to \$865 billion at the end of 2009. As a portion of GDP, debt held by the public will plummet from 44.3 percent at the end of 1998 to 6.4 percent at the end of 2009.

Revenue growth continues to be the engine that drives mounting estimates of the surplus. From 1994 through 1998, revenues grew by an average of 8.1 percent a year, compared with only 3.1 percent for outlays. The rise in revenues is expected to slow to 5.8 percent in 1999 and to drop further—to an average rate of 4.1 percent a year—from 2000 through 2009. However, annual growth in outlays is projected to remain in the 3 percent range through 2009 (assuming that the caps are honored through 2002 and that discretionary spending grows at the rate of inflation thereafter), thus boosting total budget surpluses.

Total government inflows and outflows include the Social Security trust funds (Old-Age and Survivors Insurance and Disability Insurance), which have their own earmarked sources of revenue. Income going into those funds currently exceeds outlays for benefits and program administration. The trust fund surpluses have, by law, been invested in interest-bearing government securities, and that interest is part of the funds' income. Those investments have in turn reduced the need to borrow from the public to finance other programs.

Excluding Social Security and the Postal Service (which are classified as off-budget), the remainder of the budget recorded a \$30 billion deficit in 1998. That on-budget deficit is expected to decline to \$4 billion this year. In 2000, CBO projects, the on-budget measure will be in surplus by \$14 billion if discretionary spending does not exceed its statutory caps. However, if the Congress enacts appropriations for discretionary spending that CBO estimates will exceed the statutory

caps on outlays, the on-budget surplus in 2000 could disappear (see Box 1). Under CBO's baseline assumptions, though, the on-budget surplus in 2009 (\$178 billion) is projected to begin approaching the size of the off-budget surplus (\$235 billion).

Small departures from CBO's economic or technical assumptions could result in budgetary outcomes that are substantially different from the projections, even without changes in policy. For instance, if CBO's economic projections proved overly optimistic or if health care spending resumed its rapid growth, surpluses could be lower than anticipated. Of course, the economy could also be more robust than expected, and the factors that have dampened spending on Medicare and Medicaid could continue. Under those circumstances, the budget outlook would be even brighter than CBO now projects. In any case, results for any one year that differ by as much as \$100 billion from current projections are entirely possible. (For an illustration of how different economic assumptions could affect the budget, see Appendix C of CBO's January 1999 report *The Economic and Budget Outlook: Fiscal Years 2000-2009*.)

## Changes in the Projections Since April

The budget outlook has continued to improve since April, when CBO published its previous baseline projections. The total budget surplus for the current year is now anticipated to be \$10 billion higher than the earlier estimate (see Table 6). Projected surpluses for the 2000-2009 period average \$30 billion a year more than before. Most of the changes in projected surpluses can be attributed to CBO's updated economic forecast.

**Recent Legislation.** The only legislation enacted since April that will have a significant impact on the budget is the 1999 Emergency Supplemental Appropriations Act (P.L. 106-31). That act designated almost \$15 billion in emergency budget authority, which is not subject to the statutory spending caps. It provided funds for military operations in Kosovo and the Middle East, refugee relief in those and other regions, assistance to Jordan and Central America, domestic and international relief for natural disasters (principally the tornadoes in Oklahoma and Kansas and Hur-

ricane Mitch in Central America), and for other purposes.

The act provided close to \$13 billion in appropriations designated as emergencies for fiscal year 1999 and nearly \$2 billion for 2000. Of the amount provided for 1999, roughly three-quarters is for defense programs. Almost all of the amount for 2000 is for military pay and retirement.

As a result of the additional appropriations, outlays are expected to be \$4 billion higher this year, \$7 billion higher in 2000, and higher by smaller amounts through 2009. Bumping up the level of outlays permitted under the statutory cap in 2002 causes CBO's projection of discretionary spending in 2003 through 2009 to be \$1 billion higher annually. CBO's baseline assumes that total discretionary spending grows at the rate of inflation after the caps are lifted in 2002; the

#### Box 1. Will There Be an On-Budget Surplus in 2000?

The concurrent resolution on the budget for fiscal year 2000 (H. Con. Res. 68) assumes enactment of legislation that will reduce revenues starting in 2001. But it also provides for a reduction in revenues in 2000 that is contingent on the Congressional Budget Office's (CBO's) baseline projections in this report. Under section 211 of the resolution, if CBO projects an on-budget surplus in 2000 under current policies, the Chairmen of the House and Senate Budget Committees may adjust the budget resolution to allow a reduction in revenues in 2000 equal to CBO's estimate of the on-budget surplus.

CBO's baseline projections, which assume that discretionary outlays in 2000 will equal the statutory limits (or caps) on such spending, show an on-budget surplus of \$14 billion in 2000. However, that projection may overstate the appropriate estimate of the surplus for purposes of section 211 for two reasons:

- o A portion of off-budget spending in CBO's projections is treated as on-budget spending in the budget resolution, thereby making it harder to achieve an on-budget surplus.
- o In enforcing compliance with the caps on discretionary spending, the House and Senate Budget Committees may use estimates that will allow appropriations to exceed the outlay caps under CBO's estimates.

CBO's baseline calculation of the on-budget surplus excludes about \$3 billion in spending for administrative expenses of the Social Security Adminis-

tration (SSA) because that spending is designated by statute as off-budget. However, since 1991, budget resolutions have treated SSA administrative expenses as on-budget because, according to the Office of Management and Budget's interpretation, they are subject to the caps on discretionary spending. If CBO's projections are made consistent with the budget resolution's treatment of those expenses, the projected on-budget surplus falls to \$11 billion.

Both CBO's baseline projections and the budget resolution assume that discretionary spending in 2000 will equal the statutory caps. For purposes of enforcing the resolution, however, the budget committees have indicated that they may reduce CBO's estimate of discretionary outlays resulting from appropriation bills considered this year by about \$10 billion for defense, \$1 billion for transportation, and \$3 billion for other nondefense programs. Thus, if Congressional estimates of enacted appropriations incorporate all of those potential adjustments, discretionary spending will be \$14 billion higher than CBO assumed for 2000 in its current baseline projections. Those adjustments largely reflect the fact that the Administration's estimates of outlays from appropriations are significantly lower than CBO's estimates (see *An Analysis of the President's Budgetary Proposals for Fiscal Year 2000*, April 1999). Thus, that scorekeeping adjustment is not likely to lead to a sequestration of discretionary spending.

If all of those adjustments are made, the projected on-budget surplus of \$14 billion in 2000 turns into a deficit of more than \$3 billion.

higher level of outlays now projected for 2002 raises the base from which future totals are computed.

One mandatory program was also affected by the Emergency Supplemental Appropriations Act. The act prohibited the federal government from recouping any money for Medicaid from the settlement of states' lawsuits against tobacco companies. CBO had previously assumed that the Medicaid program would be able to collect about \$1 billion a year after 2000.

**Economic Reestimates.** Revisions that can be traced to changes in the macroeconomic forecast increase CBO's projection of the surplus for 1999 by \$15 billion. Those revisions rise to \$37 billion for 2001 and 2002 before diminishing to about \$20 billion annually for the latter part of the decade.

Changes to the revenue forecast account for most of the economic differences in the first half of the projection period. Projected revenues have been increased by \$14 billion for 1999 and by more than twice that much for each year from 2000 through 2002. Most of those increases result because GDP is projected to be higher than in CBO's previous forecast. The effect of the economic projections on revenues diminishes and then turns negative in 2006 because taxable personal income is estimated to grow more slowly than in the January projection. In addition, book profits (the base of the corporate income tax) are projected to be lower beginning in 2002 than CBO estimated in January.

On the outlay side of the budget, projections of lower inflation reduce estimates of the future costs of a variety of programs whose cost-of-living adjustments (COLAs) are tied to the consumer price index. Reduced estimates of the COLA for Social Security lower projected spending for that program by \$6 billion in 2009. Other programs—such as civilian retirement, military retirement, and Supplemental Security Income—face reduced costs of up to \$3 billion per year as a result of lower projected inflation. CBO's lower projections for the CPI-U (the CPI for all urban consumers) also result in lower inflation adjustments for discretionary spending after the caps expire.

The recent strength of the job market has been reflected in a low rate of unemployment (CBO's estimate of the civilian unemployment rate for calendar year 1999 is 4.2 percent). Although CBO assumes

that the unemployment rate will increase gradually over time, its estimates for the next few years are considerably lower than those of January. Such a reduction brings projected spending on unemployment insurance down by \$1 billion a year for 2000 through 2002.

One of the few exceptions to the trend of lower outlay projections is the economic reestimate for net interest. Higher projected interest rates boost net interest (and therefore reduce surpluses) by \$5 billion in 2000 and \$7 billion in 2001. The effect of higher rates trails off by 2006. By that time, interest savings resulting from lower borrowing needs are projected to increase the surplus by more than \$10 billion a year.

**Technical Reestimates.** Technical revisions are changes that are not ascribed to either new legislation or revisions in the macroeconomic forecast. The wide-ranging factors that account for technical changes lead to increases of a few billion dollars each year in the projected surpluses for 2000 through 2005. By 2009, technical reestimates add \$13 billion to the surplus.

Technical changes to revenues stem primarily from data on revenue collections through May. Since no "April surprise" occurred this year (unlike the past couple of years, revenues this April were very close to what CBO expected), such changes are relatively small. Aside from 1999, technical reestimates to revenues increase the surplus by amounts up to \$6 billion a year. Among the various categories of revenues, technical changes to individual income tax collections are up and changes to corporate tax revenues are down. Those two categories largely offset one another, however.

CBO's Medicare projections reflect lower-than-expected outlays through the first eight months of 1999. Medicare outlays to date are actually lower than they were for the same period last year. Lower payments for home health services and a drop in the case-mix index (a measure of the relative costliness of the cases treated in hospitals paid under the prospective payment system) explain most of the shortfall in Medicare spending so far this year. Some of the drop in home health spending stems from longer payment lags under sequential billing—a new method of processing claims in which payment is made only if all prior claims have been processed. Medicare will sus-

pend that billing process in July, which should increase spending during the last quarter of the fiscal year. In addition, the use of home health services seems to have dropped substantially, probably as a result of both antifraud activities and an unexpectedly cautious response by home health agencies to the per-beneficiary limit under the interim payment system. Medicare will replace the interim payment system for home health services with a prospective payment system in 2001. That system will remove much of the uncertainty about payments that has contributed to the current apparent drop in use of services, so spending for home health services is expected to rebound in 2001 and later years.

CBO has also raised its projections of spending for farm price and income supports by \$1 billion for 1999 and \$2 billion for 2000. Spending is estimated to total \$16 billion in 1999 (including most of the \$6 billion in emergency farm spending from the Omnibus Consolidated and Emergency Supplemental Appropriations Act for 1999) and \$10 billion in 2000. Farm prices for many supported commodities have continued to decline from the low levels CBO projected last winter; they are now at least as low as in the 1980s and early 1990s. The farm prices of corn and soybeans, for example, are the lowest since 1987 and 1986, respectively. If next year's soybean price is as low as currently projected, it will be the lowest since 1972. For those and other major crops, lower-than-expected prices are triggering loan deficiency payments and marketing loan costs (ways of assisting farmers during periods of low market prices) that were not expected under the Federal Agricultural Improvement and Reform Act of 1996. Those conditions result from consecutive years of plentiful crops coinciding with weak global demand. Over the longer run, demand for U.S. agricultural products is expected to improve, and spending on farm price supports is projected to decline to less than \$5 billion by 2003.

## Revenue and Spending Projections

CBO projects that revenues will reach a post-World War II high of 20.6 percent of GDP this year. Without any changes in policy, revenues are expected to remain at that level next year before falling slowly to a

long-run level of 20.1 percent of GDP by 2004 (see Table 7).

Individual income tax receipts—bolstered primarily by high capital gains realizations and increases in the effective tax rate—have been the main source of the rapid growth in revenues as a percentage of GDP. A sharp rise in stock prices partly explains the higher realizations of capital gains. And especially rapid growth in income among high-income taxpayers, who are taxed at high marginal rates, has boosted the effective tax rate. CBO expects total revenues to grow by 5.8 percent this year but does not expect them to continue increasing more rapidly than overall growth of GDP.

On the other side of the ledger, outlays are projected to rise more slowly than revenues, increasing by an average of 3.2 percent annually from 2000 through 2009. In dollar terms, total outlays will grow from \$1,701 billion in 1999 to \$2,312 billion in 2009, CBO estimates. As a percentage of GDP, however, outlays are projected to decline throughout the period—from 19.2 percent of GDP in 1999 to 17.1 percent in 2009.

Discretionary spending is currently restrained by an assortment of caps through 2002 (see Table 8). If left intact, those caps will bring total discretionary spending down from \$574 billion in 1999 to \$569 billion in 2002. CBO assumes that after 2002, discretionary spending will grow at the rate of inflation. Even so, such spending is projected to decline from 6.5 percent of GDP in 1999 to 5.0 percent in 2009.

Spending for entitlements and other mandatory programs, by far the largest category of spending, is expected to total \$977 billion this year. Three programs—Medicare, Medicaid, and Social Security—account for roughly three-quarters of that total (see Table 9). Medicare and Medicaid have consistently been among the fastest-growing programs in the past decade. In 1999, however, outlays for Medicare are expected to fall by \$1 billion. The factors that are restraining the growth of Medicare spending will be played out in the near future, and growth is projected to rebound to an average rate of nearly 8 percent a year. Partly as a result, CBO projects that total mandatory spending will increase from 11.0 percent of GDP in 1999 to 12.5 percent in 2009.

Net interest, which was the fastest-growing category of spending in the 1980s, is now expected to decline substantially. As projected surpluses reduce the stock of debt held by the public by nearly \$2.8 trillion, net interest costs will drop from \$229 billion (2.6 percent of GDP) in 1999 to \$71 billion (0.5 percent of GDP) in 2009 (see Table 10).

In addition to debt issued to the public, the Department of the Treasury issues securities to government trust funds and other government accounts. Debt subject to limit basically measures the combination of debt held by the public and debt held internally by government accounts. Because inflows to major trust funds exceed outlays for benefits and other costs, debt held by government accounts is projected to increase from \$2 trillion in 1999 to \$4.6 trillion in 2009. At the same time, however, debt held by the public is projected to decrease from \$3.6 trillion to \$0.9 trillion. Therefore, on net, debt subject to limit is projected to

finish 2009 slightly below its current level and is not expected to breach its statutory limit of \$5.95 trillion in the next 10 years.

---

## Conclusion

Overall, the outlook for the budget looks good through 2009. CBO's current projections are slightly better than those reported in April, and its economic forecast anticipates healthy growth in the near term. However, demographic tensions loom in the not-so-distant future. After 2010, the retirement of the baby-boom generation will pick up steam, bringing with it a greater demand for Social Security, Medicare, and Medicaid benefits. Budgetary pressures caused by increased participation in such programs can easily reverse the favorable fiscal forces that are operating today.

**Table 1.**  
**The CBO Forecast for 1999 and 2000**

	Actual 1998	Forecast	
		1999	2000
<b>Fourth Quarter to Fourth Quarter (Percentage change)</b>			
Nominal GDP	5.2	5.2	4.0
Real GDP <sup>a</sup>	4.3	3.6	2.1
GDP Price Index <sup>b</sup>	0.9	1.6	1.9
Consumer Price Index <sup>c</sup>	1.5	2.5	2.4
<b>Calendar Year Average (Percent)</b>			
Real GDP <sup>a</sup>	3.9	4.0	2.4
Unemployment Rate	4.5	4.2	4.3
Three-Month Treasury Bill Rate	4.8	4.6	5.0
Ten-Year Treasury Note Rate	5.3	5.6	5.9

SOURCES: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis; Federal Reserve Board; Department of Labor, Bureau of Labor Statistics.

- a. Based on chained 1992 dollars.
- b. The GDP price index is virtually the same as the implicit GDP deflator.
- c. The consumer price index for all urban consumers.

**Table 2.**  
**Comparison of the CBO Economic Projections for Calendar Years 1999-2009**

	Actual 1998	Forecast				Projected						
		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Nominal GDP (Billions of dollars)</b>												
July 1999	8,511	8,964	9,351	9,751	10,159	10,583	11,027	11,508	12,017	12,554	13,113	13,695
January 1999	8,499 <sup>a</sup>	8,846	9,182	9,581	10,015	10,476	10,960	11,465	11,988	12,528	13,089	13,668
<b>Nominal GDP (Percentage change)</b>												
July 1999	4.9	5.3	4.3	4.3	4.2	4.2	4.2	4.4	4.4	4.5	4.5	4.4
January 1999	4.8 <sup>a</sup>	4.1	3.8	4.3	4.5	4.6	4.6	4.6	4.6	4.5	4.5	4.4
<b>Real GDP (Percentage change)</b>												
July 1999	3.9	4.0	2.4	2.4	2.3	2.3	2.3	2.5	2.5	2.5	2.5	2.5
January 1999	3.7 <sup>a</sup>	2.3	1.7	2.2	2.4	2.4	2.4	2.4	2.4	2.3	2.3	2.3
<b>GDP Price Index<sup>b</sup> (Percentage change)</b>												
July 1999	1.0	1.3	1.8	1.8	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.9
January 1999	1.0 <sup>a</sup>	1.7	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
<b>Consumer Price Index<sup>c</sup> (Percentage change)</b>												
July 1999	1.6	2.2	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
January 1999	1.6	2.5	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
<b>Unemployment Rate (Percent)</b>												
July 1999	4.5	4.2	4.3	4.6	4.9	5.1	5.3	5.4	5.5	5.5	5.5	5.5
January 1999	4.5	4.6	5.1	5.4	5.6	5.7	5.7	5.7	5.7	5.7	5.7	5.7
<b>Three-Month Treasury Bill Rate (Percent)</b>												
July 1999	4.8	4.6	5.0	4.6	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
January 1999	4.8	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
<b>Ten-Year Treasury Note Rate (Percent)</b>												
July 1999	5.3	5.6	5.9	5.5	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
January 1999	5.3	5.1	5.3	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
<b>Tax Bases (Percentage of GDP)</b>												
Corporate profits												
July 1999	8.4	8.1	7.3	7.4	7.5	7.4	7.4	7.3	7.3	7.3	7.2	7.2
January 1999	8.5	8.1	7.4	7.6	7.7	7.8	7.9	7.9	7.9	7.8	7.7	7.5
Wages and salaries												
July 1999	48.8	49.2	49.5	49.3	49.2	49.2	49.2	49.3	49.3	49.3	49.3	49.3
January 1999	48.8	49.3	49.7	49.5	49.3	49.2	49.1	49.1	49.1	49.1	49.1	49.1

SOURCES: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis; Federal Reserve Board; Department of Labor, Bureau of Labor Statistics.

NOTE: Percentage change is year over year. Corporate profits are book profits.

a. Based on data for the first three quarters of 1998 published November 24, 1998.

b. The GDP price index is virtually the same as the implicit GDP deflator.

c. The consumer price index for all urban consumers.

**Table 3.**  
**The CBO Economic Projections for Fiscal Years 1999-2009**

	Actual 1998	Forecast			Projected						
		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Nominal GDP (Billions of dollars)	8,404	8,851	9,259	9,652	10,055	10,476	10,913	11,385	11,887	12,418	12,972
Nominal GDP (Percentage change)	5.0	5.3	4.6	4.2	4.2	4.2	4.2	4.3	4.4	4.5	4.5
Real GDP (Percentage change)	3.8	4.1	2.8	2.3	2.3	2.3	2.3	2.4	2.5	2.5	2.5
GDP Price Index <sup>a</sup> (Percentage change)	1.2	1.1	1.8	1.9	1.8	1.8	1.8	1.9	1.9	1.9	1.9
Consumer Price Index <sup>b</sup> (Percentage change)	1.6	1.9	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Unemployment Rate (Percent)	4.6	4.3	4.2	4.5	4.8	5.1	5.3	5.4	5.5	5.5	5.5
Three-Month Treasury Bill Rate (Percent)	5.0	4.5	5.0	4.8	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Ten-Year Treasury Note Rate (Percent)	5.6	5.2	5.9	5.6	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Tax Bases (Percentage of GDP)											
Corporate profits	8.6	8.2	7.5	7.4	7.5	7.4	7.4	7.3	7.3	7.3	7.2
Wages and salaries	48.6	49.1	49.5	49.4	49.2	49.2	49.2	49.3	49.3	49.3	49.3

SOURCES: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis; Federal Reserve Board; Department of Labor, Bureau of Labor Statistics.

NOTE: Percentage change is year over year. Corporate profits are book profits.

- a. The GDP price index is virtually the same as the implicit GDP deflator.
- b. The consumer price index for all urban consumers.

**Table 4.**  
**Key Assumptions for the CBO Projection of Potential Output (By calendar year)**

	Average Annual Growth Rate (Percent)						
	1949-1998	1949-1960	1960-1969	1969-1980	1980-1990	1990-1998	1998-2009 (Projection)
<b>Overall Economy</b>							
Working-Age Population	1.3	0.8	1.4	2.0	1.1	1.0	1.0
Potential Labor Force	1.7	1.0	1.6	2.7	1.6	1.1	1.0
Potential Labor Force Productivity <sup>a</sup>	1.6	2.7	2.4	0.6	1.0	1.2	1.7
Excluding new price indexes	1.6	2.7	2.5	0.6	1.0	1.0	1.4
Effect of new price indexes	n.a.	n.a.	n.a.	n.a.	n.a.	0.1	0.3
Potential Real GDP	3.3	3.8	4.1	3.3	2.6	2.4	2.8
Real GDP	3.4	3.9	4.6	2.8	2.9	2.6	2.6
<b>Nonfarm Business Sector</b>							
Potential Employment	1.8	1.2	1.7	2.8	1.7	1.4	1.1
Potential Hours Worked	1.5	1.0	1.3	2.1	1.6	1.4	1.1
Capital Input	3.7	3.4	4.3	4.1	3.6	3.1	4.1
Potential Total Factor Productivity	1.3	2.0	2.0	1.1	0.5	0.7	1.1
Potential Labor Force Productivity <sup>b</sup>	1.9	2.7	2.9	1.7	1.0	1.3	2.0
Excluding new price indexes	1.9	2.7	2.9	1.7	1.0	1.1	1.5
Effect of new price indexes	n.a.	n.a.	n.a.	n.a.	n.a.	0.2	0.5
Potential Real Output	3.5	3.8	4.3	3.8	2.7	2.7	3.1

SOURCE: Congressional Budget Office using data from the Department of Labor, Bureau of Labor Statistics, and the Department of Commerce, Bureau of Economic Analysis.

NOTES: The years marking the ends of historical periods (except 1998) are years in which the business cycle peaked.

n.a. = not applicable.

- a. Growth in potential output per labor force member.
- b. Growth in potential output per hour in the nonfarm business sector.

**Table 5.**  
**The Budget Outlook Under Current Policies (By fiscal year)**

	Actual											
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>In Billions of Dollars</b>												
Baseline Total Surplus <sup>a</sup>	69	120	161	193	246	247	266	286	334	364	385	413
On-Budget Deficit (-) or Surplus (Excluding Social Security and the Postal Service) <sup>a</sup>	-30	-4	14	38	82	75	85	92	129	146	157	178
<b>Memorandum:</b>												
Off-Budget Deficit (-) or Surplus												
Social Security	99	125	147	155	163	172	181	195	205	217	228	235
Postal Service	b	-1	b	b	1	0	0	0	0	0	0	0
Total	99	125	147	155	164	172	181	195	205	217	228	235
<b>As a Percentage of Gross Domestic Product</b>												
Baseline Total Surplus <sup>a</sup>	0.8	1.4	1.7	2.0	2.5	2.4	2.4	2.5	2.8	2.9	3.0	3.1
On-Budget Deficit (-) or Surplus (Excluding Social Security and the Postal Service) <sup>a</sup>	-0.4	c	0.2	0.4	0.8	0.7	0.8	0.8	1.1	1.2	1.2	1.3

SOURCE: Congressional Budget Office.

- a. Assumes that discretionary spending will equal the statutory caps on such spending through 2002 and will grow at the rate of inflation thereafter.
- b. Less than \$500 million.
- c. Less than 0.05 percent.

**Table 6.**  
**Changes in Baseline Surpluses Since April 1999 (By fiscal year, in billions of dollars)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
April Baseline Surplus*	111	133	156	212	213	239	263	309	338	358	383
<b>Legislative Changes</b>											
Revenues	b	b	b	b	b	b	b	b	b	b	b
Outlays											
Discretionary	4	7	2	1	1	1	1	1	1	1	1
Mandatory											
Medicaid	0	0	1	1	1	1	1	1	1	1	1
Debt service	b	b	1	1	1	1	1	1	2	2	2
Subtotal	4	8	4	2	3	3	3	3	3	4	4
Total <sup>c</sup>	-4	-8	-4	-2	-3	-3	-3	-3	-3	-4	-4
<b>Economic Changes</b>											
Revenues	14	33	36	30	21	11	2	-3	-5	-7	-7
Outlays											
Discretionary	0	0	0	0	-1	-1	-2	-2	-3	-4	-5
Mandatory											
Social Security	0	-1	-2	-2	-3	-3	-4	-4	-5	-5	-6
Other COLA programs	b	b	-1	-1	-1	-2	-2	-2	-2	-3	-3
Unemployment insurance	0	-1	-1	-1	b	b	0	0	0	0	0
Net interest (Rate effects)	b	5	7	3	2	1	1	b	b	b	b
Debt service	b	-2	-3	-5	-7	-8	-10	-10	-11	-12	-13
Other	b	-1	-1	-1	-1	-1	-2	-2	-2	-2	-2
Subtotal	-1	b	b	-7	-11	-14	-18	-20	-23	-26	-29
Total <sup>c</sup>	15	33	37	37	33	26	20	18	18	19	22
<b>Technical Changes</b>											
Revenues	-8	2	3	1	4	3	6	6	6	6	5
Outlays											
Discretionary	-4	b	b	b	b	b	b	b	b	b	b
Mandatory											
Medicare	-4	-3	-1	-1	-1	-1	-1	-1	-1	-1	-1
Medicaid	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	b
Agriculture programs	1	2	1	1	b	b	b	b	b	b	b
Debt service	b	b	b	b	b	-1	-1	-1	-2	-2	-3
Other	b	1	b	2	2	1	2	-1	-2	-2	-3
Subtotal	-6	-2	-1	1	b	-2	-1	-4	-5	-6	-7
Total <sup>c</sup>	-1	3	4	b	5	5	7	10	11	12	13
<b>Total Changes</b>											
Revenues	7	35	40	30	26	14	8	4	1	-1	-2
Outlays	-3	7	3	-4	-9	-13	-16	-21	-25	-28	-32
Total	10	28	37	34	35	28	24	25	26	27	31
July Baseline Surplus*	120	161	193	246	247	266	286	334	364	385	413

SOURCE: Congressional Budget Office.

NOTE: Revenue gains are shown with a positive sign because they increase the surplus. COLA = cost-of-living adjustment.

- a. The baseline assumes that discretionary spending will equal the statutory caps on such spending through 2002 and will grow at the rate of inflation thereafter.
- b. Less than \$500 million.
- c. Includes changes in both revenues and outlays. The figure shown is the effect on the surplus. Increases in the surplus are shown as positive.

**Table 7.**
**CBO Baseline Budget Projections, Assuming Compliance with the Discretionary Spending Caps (By fiscal year)**

	Actual 1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>In Billions of Dollars</b>												
<b>Revenues</b>												
Individual income	829	887	930	958	991	1,024	1,065	1,113	1,166	1,221	1,281	1,346
Corporate income	189	178	177	181	189	195	202	210	219	227	235	241
Social insurance	572	607	646	671	696	722	749	786	819	855	889	925
Other	133	149	153	160	169	175	181	186	193	198	205	213
Total	1,722	1,821	1,905	1,970	2,045	2,116	2,198	2,296	2,396	2,501	2,609	2,725
On-budget	1,306	1,377	1,431	1,477	1,533	1,585	1,646	1,717	1,793	1,871	1,953	2,042
Off-budget	416	444	474	493	511	532	553	579	603	630	656	683
<b>Outlays</b>												
Discretionary spending	555	574	580	575	569	583	598	613	628	644	660	677
Mandatory spending	939	977	1,022	1,077	1,132	1,200	1,266	1,350	1,409	1,493	1,590	1,689
Offsetting receipts	-84	-79	-80	-86	-98	-93	-96	-101	-106	-112	-118	-125
Net interest	243	229	222	212	194	179	164	148	131	112	92	71
Total	1,653	1,701	1,744	1,777	1,798	1,869	1,932	2,009	2,062	2,137	2,224	2,312
On-budget	1,336	1,381	1,417	1,440	1,451	1,510	1,561	1,625	1,664	1,725	1,796	1,864
Off-budget	317	320	327	337	347	359	371	384	398	412	428	447
Deficit (-) or Surplus	69	120	161	193	246	247	266	286	334	364	385	413
On-budget	-30	-4	14	38	82	75	85	92	129	146	157	178
Off-budget	99	125	147	155	164	172	181	195	205	217	228	235
Debt Held by the Public	3,720	3,618	3,473	3,297	3,066	2,835	2,584	2,312	1,992	1,640	1,267	865
<b>As a Percentage of Gross Domestic Product</b>												
<b>Revenues</b>												
Individual income	9.9	10.0	10.0	9.9	9.9	9.8	9.8	9.8	9.8	9.8	9.9	9.9
Corporate income	2.2	2.0	1.9	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8
Social insurance	6.8	6.9	7.0	7.0	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.8
Other	1.6	1.7	1.6	1.7	1.7	1.7	1.7	1.6	1.6	1.6	1.6	1.6
Total	20.5	20.6	20.6	20.4	20.3	20.2	20.1	20.2	20.2	20.1	20.1	20.1
On-budget	15.5	15.6	15.5	15.3	15.3	15.1	15.1	15.1	15.1	15.1	15.1	15.1
Off-budget	4.9	5.0	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.0
<b>Outlays</b>												
Discretionary spending	6.6	6.5	6.3	6.0	5.7	5.6	5.5	5.4	5.3	5.2	5.1	5.0
Mandatory spending	11.2	11.0	11.0	11.2	11.3	11.5	11.6	11.9	11.9	12.0	12.3	12.5
Offsetting receipts	-1.0	-0.9	-0.9	-0.9	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Net interest	2.9	2.6	2.4	2.2	1.9	1.7	1.5	1.3	1.1	0.9	0.7	0.5
Total	19.7	19.2	18.8	18.4	17.9	17.8	17.7	17.7	17.3	17.2	17.1	17.1
On-budget	15.9	15.6	15.3	14.9	14.4	14.4	14.3	14.3	14.0	13.9	13.8	13.8
Off-budget	3.8	3.6	3.5	3.5	3.5	3.4	3.4	3.4	3.3	3.3	3.3	3.3
Deficit (-) or Surplus	0.8	1.4	1.7	2.0	2.5	2.4	2.4	2.5	2.8	2.9	3.0	3.1
On-budget	-0.4	a	0.2	0.4	0.8	0.7	0.8	0.8	1.1	1.2	1.2	1.3
Off-budget	1.2	1.4	1.6	1.6	1.6	1.6	1.7	1.7	1.7	1.7	1.8	1.7
Debt Held by the Public	44.3	40.9	37.5	34.2	30.5	27.1	23.7	20.3	16.8	13.2	9.8	6.4
<b>Memorandum:</b>												
Gross Domestic Product (Billions of dollars)	8,404	8,851	9,259	9,652	10,055	10,476	10,913	11,385	11,887	12,418	12,972	13,547

SOURCE: Congressional Budget Office.

a. Less than 0.05 percent.

**Table 8.**
**CBO Baseline Projections of Discretionary Outlays, Assuming Compliance with the Spending Caps  
(By fiscal year, in billions of dollars)**

	Actual 1998	1999	2000	2001	2002
Defense	270	275	a	a	a
Domestic and International	257	269	a	a	a
Violent Crime Reduction	4	5	6	a	a
Highways	19	21	25	26	27
Mass Transit	4	4	4	5	5
Overall Discretionary	<u>n.a.</u>	<u>n.a.</u>	<u>546</u>	<u>544</u>	<u>537</u>
Total	555	574	580	575	569

SOURCE: Congressional Budget Office.

NOTES: The caps reflect discretionary spending limits as specified by the Office of Management and Budget in the sequestration preview report included in the President's budget, adjusted for CBO's estimate of contingent emergency releases that the President has not yet designated. The caps have also been adjusted for emergency spending enacted since January.

n.a. = not applicable.

a. After the specific cap expires, spending from programs in that category is shown in the "Overall Discretionary" category.

**Table 9.****CBO Baseline Projections of Mandatory Spending (By fiscal year, in billions of dollars)**

	Actual 1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Means-Tested Programs</b>												
Medicaid	101	107	115	124	134	146	159	173	188	205	224	244
State Children's Health Insurance	a	1	2	3	4	4	4	4	4	5	5	5
Food Stamps	20	19	20	21	22	23	23	24	25	25	26	27
Supplemental Security Income	27	28	29	31	33	35	36	41	40	39	45	47
Family Support <sup>b</sup>	18	20	21	21	22	22	23	24	25	26	27	27
Veterans' Pensions	3	3	3	3	3	3	3	4	4	3	4	4
Child Nutrition	9	9	9	10	10	11	11	12	13	13	14	14
Earned Income Tax Credit <sup>c</sup>	23	26	27	27	28	28	29	30	30	31	31	32
Student Loans	3	3	5	5	5	5	5	5	5	5	5	6
Foster Care	4	5	5	6	6	7	7	8	8	9	10	10
Total	209	222	237	252	268	284	302	325	342	361	389	416
<b>Non-Means-Tested Programs</b>												
Social Security	376	387	402	420	440	461	483	507	532	559	588	621
Medicare	211	210	225	243	253	277	298	328	342	377	408	442
Subtotal	587	597	627	663	694	738	781	835	875	936	997	1,063
Other Retirement and Disability												
Federal civilian <sup>d</sup>	47	49	50	52	55	57	60	63	66	69	72	75
Military	31	32	33	34	35	36	37	38	39	40	41	42
Other	4	5	5	5	5	5	5	5	5	5	5	5
Subtotal	83	86	88	91	94	98	102	106	110	114	118	122
Unemployment Compensation	20	21	22	24	26	28	29	30	31	32	34	35
Deposit Insurance	-4	-6	-2	-1	a	a	1	1	-1	-1	-1	-1
Other Programs												
Veterans' benefits <sup>e</sup>	21	21	22	23	23	24	25	27	26	24	27	27
Farm price and income supports	9	17	11	8	6	5	5	5	5	5	5	5
Social services	5	5	5	5	5	5	5	5	5	5	5	5
Credit reform liquidating accounts	-8	-7	-7	-7	-7	-7	-8	-7	-8	-8	-8	-8
Universal Service Fund	2	4	6	8	13	14	14	14	14	14	14	14
Other	17	19	13	12	11	12	12	11	11	11	12	12
Subtotal	45	58	49	47	51	52	51	54	52	51	54	55
Total	730	755	784	825	864	916	964	1,025	1,067	1,132	1,201	1,273
<b>Total</b>												
All Mandatory Spending	939	977	1,022	1,077	1,132	1,200	1,266	1,350	1,409	1,493	1,590	1,689

SOURCE: Congressional Budget Office.

NOTE: Spending for the benefit programs shown above generally excludes administrative costs, which are discretionary. Spending for Medicare also excludes premiums, which are considered offsetting receipts.

- a. Less than \$500 million.
- b. Includes Temporary Assistance for Needy Families, Family Support, Aid to Families with Dependent Children, Job Opportunities and Basic Skills, Contingency Fund for State Welfare Programs, Child Care Entitlements to States, and Children's Research and Technical Assistance.
- c. Includes outlays from the child credit enacted in the Taxpayer Relief Act of 1997.
- d. Includes Civil Service, Foreign Service, Coast Guard, other retirement programs, and annuitants' health benefits.
- e. Includes veterans' compensation, readjustment benefits, life insurance, and housing programs.

**Table 10.****CBO Baseline Projections of Interest Costs and Federal Debt (By fiscal year)**

	Actual 1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Net Interest Outlays (Billions of dollars)</b>												
Interest on Public Debt (Gross interest) <sup>a</sup>	364	356	358	358	350	345	342	338	333	328	323	316
Interest Received by Trust Funds												
Social Security	-47	-53	-59	-67	-74	-82	-91	-100	-110	-121	-132	-144
Other trust funds <sup>b</sup>	<u>-67</u>	<u>-68</u>	<u>-70</u>	<u>-73</u>	<u>-74</u>	<u>-76</u>	<u>-79</u>	<u>-81</u>	<u>-84</u>	<u>-87</u>	<u>-89</u>	<u>-92</u>
Subtotal	-114	-120	-129	-140	-148	-159	-170	-182	-194	-208	-222	-236
Other Interest <sup>c</sup>	<u>-7</u>	<u>-7</u>	<u>-6</u>	<u>-7</u>	<u>-7</u>	<u>-7</u>	<u>-8</u>	<u>-8</u>	<u>-8</u>	<u>-8</u>	<u>-8</u>	<u>-9</u>
Total	243	229	222	212	194	179	164	148	131	112	92	71
<b>Federal Debt at the End of the Year (Billions of dollars)</b>												
Gross Federal Debt	5,479	5,582	5,664	5,721	5,737	5,760	5,770	5,770	5,732	5,675	5,600	5,500
Debt Held by Government Accounts												
Social Security	730	856	1,003	1,157	1,321	1,493	1,675	1,869	2,075	2,292	2,520	2,755
Other accounts <sup>b</sup>	<u>1,029</u>	<u>1,107</u>	<u>1,188</u>	<u>1,267</u>	<u>1,350</u>	<u>1,431</u>	<u>1,510</u>	<u>1,589</u>	<u>1,666</u>	<u>1,743</u>	<u>1,813</u>	<u>1,880</u>
Subtotal	1,759	1,963	2,190	2,425	2,670	2,925	3,185	3,458	3,741	4,035	4,333	4,635
Debt Held by the Public	3,720	3,618	3,473	3,297	3,066	2,835	2,584	2,312	1,992	1,640	1,267	865
Debt Subject to Limit <sup>d</sup>	5,439	5,543	5,626	5,684	5,700	5,724	5,734	5,736	5,699	5,643	5,568	5,469
<b>Federal Debt as a Percentage of Gross Domestic Product</b>												
Debt Held by the Public	44.3	40.9	37.5	34.2	30.5	27.1	23.7	20.3	16.8	13.2	9.8	6.4

SOURCE: Congressional Budget Office.

NOTE: Projections of interest and debt assume that discretionary spending will equal the statutory caps on such spending through 2002 and will grow at the rate of inflation thereafter.

- a. Excludes interest costs of debt issued by agencies other than the Treasury (primarily the Tennessee Valley Authority).
- b. Mainly Civil Service Retirement, Military Retirement, Medicare, unemployment insurance, and the Airport and Airway Trust Fund.
- c. Mainly interest on loans to the public.
- d. Differs from the gross federal debt primarily because most debt issued by agencies other than the Treasury is excluded from the debt limit. The current debt limit is \$5,950 billion.